Order Code RL30775

CRS Report for Congress
Received through the CRS Web

Pension Policy: How Women Are Affected

Updated March 23, 2001

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Pension Policy: How Women are Affected

Summary

Women who have engaged in financial planning for their retirement years are likely to conclude that they are lacking in at least one of the primary sources of support, namely, benefits from employer-sponsored pension plans. Across public and private sector employees, a smaller proportion of women (47%) than men (52%) were covered by employer-provided pensions in 1999. The gap is even wider when only private sector firms, which employ most of the workforce, are considered: 40% of female compared to 47% of male workers at private employers were pension plan participants in 1999. Pension inequality by gender exists not only in coverage but also in income. Benefits from a company/union pension plan in 1999 averaged $5,839 for women versus $10,360 for men.

Although the nation's private pension system is gender-neutral, the disparate labor market experiences of women and men have contributed to the former's poorer income prospects in retirement. Such differences as time spent in the paid labor force, earnings levels and other job characteristics have negatively influenced women's coverage under and benefits derived from employer-sponsored pension plans. In other words, women are less likely than men to be covered by employer-provided pension plans because (1) women less often are in the paid labor force; (2) they more often are ineligible (e.g., because of part-time work schedules), choose not to participate (e.g., because of low wages) or fail to become entitled to benefits (e.g., because of intermittent jobholding) when employed by firms that offer pension plans; and they more often are employed in industries (e.g., retail trade and services) that have below average rates of pension plan sponsorship. Similarly, women are more likely than men to receive smaller payments from pension plans because women typically earn less and they usually have spent fewer years at a given firm.

The employment and earnings patterns of women have converged on those of men over the last few decades. Women's presence in the paid labor force, earnings levels and job tenure all have increased substantially. Relative to their share of the labor force, however, women still are over represented among part-time, temporary agency and contingent workers in general. The gender wage gap persists, and women continue to spend less uninterrupted time in paid jobs than men. These dissimilarities could well affect the extent and size of pension distributions to women for the foreseeable future.

Over the years, the Congress has enacted various measures to promote the coverage of working women under pension plans (e.g., shortened the length of employment for benefit entitlement) and to protect the income of older women (e.g., inform spouses of pensioners about a survivor's option under which they could keep getting benefits if the pensioner expires). Although these policies are not gender-specific, they likely have been of greater help to women in light of their work patterns and longevity. The Congress has continued to take this approach by proposing to shorten further the minimum length of service for pension benefit entitlement, improving pension portability, expanding survivor benefit options, and expanding pension coverage for part-time and contingent workers.

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At the close of the 20th century, some 11 million working women were between 50 and 61 years old[1] — an age group likely to be actively contemplating retirement. If these women had engaged in financial planning for their imminent retirements, many probably would have concluded that at least one part of "the three-legged stool" was wobbly. This common analogy for the primary sources of a retiree's income refers to employer-sponsored pensions, social security and personal savings. The unreliable support under consideration in this report is employer-provided pension plans. The report analyzes why the participation rate in these plans and the amount of benefits received from them differs by gender. It then examines the various proposals Congress has put forth over time that were intended to help working women stabilize the pension leg of the retirement income stool.

The Working Lives of Women

Although the nation's private pension system is gender-neutral, the disparate labor market experiences of women and men have contributed to the former's poorer income prospects in retirement. Such differences as time spent in the paid labor force, earnings levels and other job characteristics have negatively influenced women's coverage under and benefits derived from employer-sponsored pension plans. Despite the convergence over time of women's and men's employment and earnings patterns, dissimilarities remain that could well continue to affect the extent and size of pension distributions to women for the foreseeable future.

Extent and Pattern of Participation in the Paid Labor Force

Historically, many fewer women than men have worked for pay or profit. Although the labor force participation rate[2] of women has been approaching that of men, the gulf remains wide. In 1999, 76.8% of women compared to 91.7% of men in the prime working ages (i.e., 25-54) were in the civilian labor force.[3] Thus, relatively fewer women than men are in a position to obtain coverage under an employer-provided pension plan.

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[1]U.S. Bureau of Labor Statistics (BLS). Unpublished data.

[2]The labor force participation rate is the proportion of the civilian noninstitutional population age 16 or older either working or actively seeking jobs. The labor force is made up of both employed and unemployed persons.

[3]BLS. *Employment and Earnings*, January 2000.

In addition, the degree of women's involvement in market work has varied across the age spectrum largely because of their traditional role as homemakers and mothers. Women between 25 and 34 years old were likely to leave their jobs when they married or had a child during the 1950-1970 period. Some married mothers subsequently returned to the labor market in their 40s and 50s after their children began or completed school. In contrast, today, the age pattern of women's attachment to the paid work force more closely resembles that of men than of women in the 1950s and 1960s. The increase in the labor force participation of 25-34 year old women from 45.0% in 1970 to 76.4% in 1999 is one reflection of women's less intermittent employment pattern. Despite the substantially greater commitment to paid employment exhibited by this age group, their participation rate remains considerably below that of 25-34 year old men (93.3% in 1999). Moreover, although younger and older women have similarly strengthened their connection to market work since 1970, the rates for women remain lower than for men at all ages.[4]

Women's intermittent pattern of employment translates into a lesser likelihood of pension coverage because they typically have found it more difficult than men to fulfill the vesting requirements of defined-benefit (DB) and defined-contribution (DC) pension plans. (See box for a general description of the two types of plans.) Congress first imposed vesting schedules, which have been strengthened over time, in the Employee Retirement Income Security Act of 1974 (ERISA) so that fewer employees would completely lose their right to pension benefits when they withdrew from the labor force or left one firm for another. Today, single-employer DB plans usually provide 100% vesting of accrued benefits to employees who have completed 5 years of service, with no entitlement to employer contributions before then. This type of vesting, called cliff vesting, also is commonly found in multi-employer DB plans, to which several firms contribute under collective bargaining agreements. Full vesting of benefits in multi-employer DB plans usually occurred after 10 years of service but, as a result of the Small Business Jobs Protection Act of 1996, will now be treated like other DB plans with regard to vesting schedules when labor contracts are renegotiated. Participants in DC plans more often receive immediate full vesting or graduated vesting of employer contributions rather than the cliff vesting typical of DB plans. With graduated vesting, the employee's right to the DC plan's employer contributions increases incrementally and usually reaches 100% in 5 years or less.[5] Five years of service with a firm is thus the common duration of employment required for entitlement to pension benefits. While 50.7% of employed male wage and salary workers age 20 or older had been with their employers for at least 5 years in 1999, the same was true for a smaller share of women (45.9%).[6]

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[4]BLS. *Employment and Earnings*, January 2000; Fullerton, Howard N. Labor Force Participation: 75 Years of Change, 1950-1998 and 1998-2025. *Monthly Labor Review*, December 1999; Spain, Daphne, and Suzanne M. Bianchi. *Balancing Act: Motherhood, Marriage, and Employment Among American Women*. N.Y., Russell Sage Foundation, 1996.

[5]BLS. *Employee Benefits in Medium and Large Private Establishments, 1997*. Bulletin 2517, September 1999. (Hereafter cited as BLS, *Employee Benefits in Medium and Large Private Establishments*.) Available at: [http://stats.bls.gov/ebshome.htm].

[6]BLS. *Employee Tenure in 2000*. USDL 00-245, August 29, 2000. (Hereafter cited as BLS,
(continued...)

Defined-Benefit and Defined-Contribution Pension Plans

"A defined-benefit plan legally obligates employers to pay retirees an annuity (based on a formula specified in the plan) at retirement age. The size of the benefit is typically based on salary and years of service. The employer is responsible for making contributions to the pension fund, investing the fund's assets, and paying benefits. With this type of plan, the employer has considerable latitude in deciding how to invest plan assets; but the employer also bears the entire risk, if investments perform poorly. If plan investments perform extraordinarily well, however, the employer may be able to reduce or suspend contributions to the plan for some period of time.

Defined-contribution plans typically specify the level of employer contributions to the plan but not the actual benefits that will be paid upon retirement. Defined-contribution plans may contain a provision for employees to contribute to their accounts, often on a pre-tax basis. Funds available at retirement depend on how much the employee and employer contribute to these accounts, as well as investment earnings. In contrast to defined-benefit plans, employees in defined-contribution plans bear the entire risk and reward of their investment decisions. There are several types of defined-contribution plans" including savings and thrift plans, deferred profit-sharing plans, money purchase pension plans, and stock plans.

"Some defined-contribution plans allow workers to contribute part of their earnings to an individual account and to defer income taxes on these contributions until the money is withdrawn, usually at retirement. These plans sometimes are called 401(k), 403(b), or Section 457 plans, after the sections of the Internal Revenue Code that permit them to be established." Most of these salary-reduction/tax-deferred plans "are savings and thrift plans, although salary-reduction features are sometimes included in" the other types of DC plans and in "free-standing 401(k) plans (to which employers do not make any contributions)."

Source: U.S. Department of Labor. *Report of the American Workforce*, Chapter 3, Employer Provided Retirement Plans. Washington 1997.

Not only do women still move in and out of the paid labor force more often than men, but women also are more likely to work on a part-time basis when employed.[7] In 1999, 19.3% of employed women between 25 and 54 years old were on part-time schedules compared to only 4.0% of men in the prime working ages.[8] Part-time work arrangements also have become increasingly prevalent in the past 3 decades: the

[6](...continued)
Employee Tenure in 2000.) Available at the following Internet site: [http://stats.bls.gov:80/news.release/tensure.nr0.htm].

[7]In the Current Population Survey, a part-time schedule is defined as usually working 1-34 hours per week.

[8]BLS. *Employment and Earnings*, January 2000.

number of people employed part-time grew by 105.1%, and the number employed full-time, by 65.6%, between 1969 and 1999.[9]

The Internal Revenue Code allows firms to exclude certain employees from participating in pension plans and still retain favorable tax treatment for the plans. One group that may be excluded legally is employees with less than 1 year of service, which is defined as working fewer than 1,000 hours in a 12-month period (i.e., about 20 hours per week). As women are a larger share of employed part-timers (80.7%) than of all employed persons (46.5%) in the prime working ages, this provision has had a more adverse impact on women's pension coverage. In 1999, the rate of participation in pension plans among workers in the private and public sectors was 47% for women and 52% for men, with the higher proportion of women on part-time schedules "a major factor in the lower overall coverage rate of women."[10] A reflection of the 1,000-hour exclusion is the smaller share of female part-timers compared to female full-timers who participated in pension plans at private and public employers that offered them (42% and 81%, respectively). Part-time employment was the third most frequent reason private sector workers gave for non-participation, with relatively more women (22%) than men (15%) reporting that they did not work enough hours per week or weeks per year to be eligible for coverage.[11]

Earnings Levels

Three factors commonly are used to calculate the amount of an employee's DB pension benefits — age, length of service and earnings in the final years on the job. Because of the previously discussed intermittent pattern of paid employment, women on average have worked fewer years than men for the same firm. Among women who became pensioners in 1993-1994, for example, the median length of service at their former employers was 20 years; among men, 26 years.[12] Similarly, among 55-64 year olds employed in 2000, 24.3% of women compared to 30.6% of men had worked 20 years or longer for their current employers.[13] This moderating but persistent disparity in job tenure thus has directly and adversely influenced the relative

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[9]For more information see: CRS Report 98-695, *Part-Time Job Growth and the Labor Effects of Policy Responses: An Overview*, by Linda Levine.

[10]U.S. Department of Labor (DOL). *Coverage Status of Workers Under Employer Provided Pension Plans: Findings from the Contingent Work Supplement to the February, 1999 Current Population Survey*. (Hereafter cited as DOL, *Coverage Status of Workers Under Employer Provided Pension Plans*.) Available at the following Internet site: [http://www.dol.gov/dol/pwba/public/programs/opr/CWS-Survey].

[11]*Ibid.*, The two more frequently offered reasons for non-participation were "haven't worked long enough or too young" and "choose not to participate" which "includes all workers who did not participate because they said it was either too expensive, a poor investment, or they choose not to participate."

[12]U.S. Department of Labor. *Retirement Benefits of American Workers: New Findings from the September 1994 Current Population Survey*. (Hereafter cited as DOL, *Retirement Benefits of American Workers*.) Available at the following Internet site: [http://www.dol.gov/dol/pwba/public/programs/opr/redbook.htm].

[13]BLS, *Employee Tenure in 2000*.

size of women's DB pensions and the level of wage replacement the pensions provide. It has an indirect negative impact, as well, to the degree that earnings levels are positively associated with time spent in the labor force. Empirical analyses have demonstrated that at least a portion of the wage gap between women and men is due to differences in years of experience.[14] And, as one of the factors in the typical DB pension calculation formula, the relatively lower earnings of women has directly and negatively affected the amount of their retirement income. Among pensioners who began receiving benefits in 1993 or 1994, for example, the median annual earnings of women had been $26,000 and their median annual annuity benefits were $4,800. In contrast, retired men's median annual earnings had been $39,000 and their median annual annuity benefits, $9,600.[15]

The typically lower earnings of women also have depressed their participation in DC plans. Generally, employer payments into DB plans on behalf of all eligible employees are automatic. In the case of DC plans (e.g., 401(k) plans) — which have become the dominant type of pension coverage[16] — employers usually contribute only after employees elect to make contributions. Lower-paid employees, such as the average woman, could feel unable to devote a portion of current earnings toward saving for retirement. In 1999, the median weekly earnings of full-time wage and salary workers were $497 among women and $668 among men age 25 or older.[17] As the pension coverage rate increases in-step with earnings, relatively fewer employees of private sector firms who earned $400-$499 compared to $600-$749 per week were covered by an employer-sponsored pension plan (49% and 65%, respectively). Further, relatively more workers in the lower than in the higher paid group said they chose not to participate in their company's pension plan because, among other things,

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[14]For more information see: CRS Report 98-278, *The Gender Wage Gap and Pay Equity: Is Comparable Worth the Next Step?*; and CRS Report 95-661, *The Male-Female Wage Gap: A Fact Sheet*, both by Linda Levine.

[15]DOL, *Retirement Benefits of American Workers*. **Note:** Pension benefits in the form of annuities, which are periodic retirement benefits payable for life, are more characteristic of DB than of DC plans. Given both the increased prevalence of coverage through DC plans and of DB plans that allow participants to take lump-sum in lieu of annuity payments, the share of retirees receiving annuity benefits has been decreasing. See footnote 16 for more information on the growth in DC plans over time.

[16]DB plans continued their 10-year downward trend and numbered 63,657 in 1996. In contrast, the number of DC plans rose to 632,566 with all of the increase occurring among 401(k) plans which totaled 230,808 in that year. In terms of the number of persons covered, 1992 was the first year in which participants in DC plans (42.4 million) exceeded those in DB plans (39.5 million). U.S. Department of Labor. *Private Pension Plan Bulletin: Abstract of 1996 Form 5500 Annual Reports*. Number 9, Winter 1999-2000. Available at: [http://www.dol.gov/dol/pwba/public/programs/opr/bullet1996/cover.htm]. Looked at differently, of full-time employees in medium and large private firms in 1997, half were enrolled in DB plans and 57%, in DC plans. The discrepancy was greater at small private firms which had 15% of full-time employees enrolled in DB plans and 38%, in DC plans, in 1996. BLS, *Employee Benefits in Medium and Large Private Establishments* and *Employee Benefits in Small Private Establishments, 1996*. Bulletin 2507, April 1999.

[17]BLS. *Employment and Earnings,* January 2000.

it was too expensive.[18] In the specific case of married women in low-paid jobs, however, total family income could affect their "decisions about participating, contributing, or investing in a 401(k) plan ..." If this were true, then "viewing these factors on the basis of earnings alone might be misleading."[19]

Other Job Characteristics

Women have been concentrated in certain kinds of jobs that sometimes have dampened their access to employer-provided pension plans. For example, women have been over represented in contingent or alternative work arrangements which commonly are described as employee-employer relationships **not** involving "traditional" full-time positions that offer job security.[20] Women's share of total employment was 46.7% in 1999, but they represented 51.3% of contingent workers and 57.8% of temporary help agency employees, many of whom (55.9%) consider themselves to be contingent workers.[21] Yet, only 13.8% of contingent workers and 5.8% of agency temporaries participated in employer-sponsored pension plans in 1999 as opposed to slightly under one-half of noncontingent or traditional workers. More contingent workers (21.4%) and agency temporaries (11.8%) were eligible for pension coverage than actually participated in 1999, perhaps in part because their less stable employment and relatively low earnings made DC plans seem unaffordable.[22]

Historically, gender differences in employment by industry also have contributed to lower rates of pension coverage among women. With women comprising 46% of all private sector employees in 1999, they were disproportionately present in three of the private service-producing sector's industry groups, namely, retail trade (51%), finance/insurance/real estate (60%) and services (61%).[23] In the same year, 45% of

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[18]DOL, *Coverage Status of Workers Under Employer Provided Pension Plans*.

[19]Clark, Robert L., with Gordon P. Goodfellow, Sylvester J. Schieber, and Drew Warwick. *Making the Most of 401(k) Plans: Who's Choosing What and Why?* in Mitchell, Olivia S., with P. Brett Hammond, and Anna M. Rappaport. *Forecasting Retirement Needs and Retirement Wealth*. Philadelphia, University of Pennsylvania Press, 2000. p. 114. (Hereafter cited as Mitchell, Hammond and Rappaport, *Forecasting Retirement Needs and Retirement Wealth*).

[20]Thus, many analysts consider part-time employees to be in contingent work arrangements, but the BLS found 90% of part-timers were not in contingent jobs in 1999. Part-time workers did comprise up 44% of persons holding contingent jobs, however. BLS. *Contingent and Alternative Employment Arrangements, February 1999*. USDL 99-362, December 21, 1999. (Hereafter cited as BLS, *Contingent and Alternative Employment Arrangements*.) Available at [http://stats.bls.gov:80/news.release/conemp.nws.htm].

[21]For more information see: CRS Report RL30072, *Temporary Workers as Members of the Contingent Labor Force*, by Linda Levine.

[22]Women employed full-time as contingent workers or as agency temporaries earned about 70% as much as women employed full-time as noncontingent or traditional workers. BLS, *Contingent and Alternative Employment Arrangements*.

[23]BLS. *Employment and Earnings*, January 2000. **Note:** The service-producing sector is composed of the following major industry groups: transportation, communication, and

(continued...)

employees at retailers (e.g., department stores and eating/drinking places), 71% at financial/insurance/real estate firms and 56% of employees at providers of services (e.g., hospitals, schools and temporary help agencies) worked for firms that sponsored pension plans. Thus, two of the three female-dominated industry groups had rates of pension plan provision below the all-industries' average (58%).[24] The pension coverage rate among full-time female workers is much improved today compared to the 1970s, in large part because firms in service sector industries that employ disproportionate numbers of women increased their sponsorship of pension plans.[25] (Trends in pension coverage are discussed more fully later in this report.)

Concluding Remarks on the Working Lives of Women

Gender *per se* is not a significant contributor to women's relatively low rate of participation in pension plans. However, women are more likely than men to have other attributes that limit their pension coverage and subsequent retirement income. Characteristics found to be significantly associated with lack of pension coverage include job tenure, part-time work, personal income, industry and occupation of employment, age, race, educational attainment, firm size and union affiliation as well as spouse's pension coverage and employment status.[26] The Deputy Assistant Secretary for Policy in the DOL's Pension and Welfare Benefits Administration noted in her testimony before the Ways and Means Subcommittee on Oversight in March 1999 that although women are "strikingly absent" from the various categories of non-covered workers, they are present in disproportionate numbers in some categories. In other words, women are less likely than men to be covered by pension plans because:

- women less often are in the paid labor force;
- they more often are ineligible (e.g., because of part-time work schedules), choose not to participate (e.g., because of low wages) or fail to meet vesting requirements (e.g., because of intermittent jobholding) when employed by firms that offer pension plans; and
- they more often are employed by firms in industries (e.g., retail trade and services) with below average rates of pension plan sponsorship.

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[23](...continued)
utilities; wholesale and retail trade; finance, insurance and real estate; services; and public administration. The private service-producing sector excludes the latter industry group.

[24]DOL, *Coverage Status of Workers Under Employer Provided Pension Plans*.

[25]The pension coverage rate of full-time female employees in the retail trade industry group rose from 26% to 35% between 1972 and 1993; in finance/insurance/real estate, from 46% to 63%; and in services, from 25% to 41%. DOL, Social Security Administration, Small Business Administration, and Pension Benefit Guaranty Corporation. *Pension and Health Benefits of American Workers: New Findings from the April 1993 Current Population Survey*. Available at: [http://www.dol.gov/dol/pwba/public/programs/opr/bluebook/].

[26]U.S. General Accounting Office. *Pension Plans: Characteristics of Persons in the Labor Force Without Pension Coverage*. GAO/HEHS-00-131, August 2000.

In addition, women are more likely than men to receive smaller payments from pension plans because:

- women typically earn less, and
- they usually have fewer years of service.

There are at least two other factors that probably further reduce the relative size of women's pension income. Final earnings, which as previously noted are part of the DB pension formula, erode in value due to inflation for vested employees who leave the labor force or change jobs well before they are eligible for distributions. The scarcity of portability provisions in DB plans thus operates to the disadvantage of persons with these employment patterns, among them women. Provisions that allow departing employees to transfer/rollover their accumulated benefits into other tax-qualified retirement savings vehicles (e.g., individual retirement accounts) are much more common in DC plans.[27] However, this feature gives workforce leavers or job changers the opportunity to spend rather than preserve their preretirement lump-sum distributions.[28] Given their relatively intermittent employment pattern, women are more vulnerable to using these assets for non-retirement purposes and to thereby reducing the amount of their future income from pensions.

The Trend in Pension Coverage and Pension Income Among Women

Over the years, the rate of pension coverage has been much higher for public sector compared to private sector employees. In 1999, for example, 77% of all wage and salary workers at public employers participated in pension plans in contrast with 44% of all workers at private employers. Similarly, women in the public sector employed either full-time or part-time have fared better than those in the private

[27]In medium and large firms, for example, portability/rollover provisions cover 8% of employees in DB plans and 53% in DC plans. BLS, *Employee Benefits in Medium and Large Private Establishments*.

[28]The negative tax consequences (i.e., regular income tax and a 10% penalty) that are incurred if people do not rollover their preretirement lump-sum distributions are intended to encourage the preservation of pension accumulations. Although the share of recipients of lump-sums who put them in tax-qualified savings vehicles has increased since the penalty was imposed in the Tax Reform Act of 1986, 23% of persons in the prime working ages who received preretirement distributions between 1986 and 1993 spent the entire amount. DOL, *Pension and Health Benefits of American Workers*.

There is evidence that suggests the rollover rate of lump-sums increased during the 1990s. (Employee Benefit Research Institute. *Large Plan Lump-Sums: Rollovers and Cashouts*. EBRI Issue Brief Number 188, August 1997.) This trend may be partly due to enactment in 1992 of the Unemployment Compensation Amendments, which required employers to withhold income taxes on preretirement lump-sum distributions and to inform employees of the tax consequences of receiving such payments prior to retirement.

CRS analysis estimated that both laws have raised the probability that lump-sums are rolled over. CRS Report RL30496, *Pension Issues: Lump-Sum Distributions and Retirement Income Security*, by Patrick J. Purcell.

sector in terms of pension coverage: 75% of female public sector employees versus 40% of female private sector employees were pension plan participants at the end of the decade.[29] Moreover, in 1999, the mean pension income of women age 65 or older from government jobs ($15,405 for the federal government; $10,924 for state and local governments) was substantially above that of women who received benefits from company/union plans ($5,839). The gender gap in pension income also has been narrower for public as opposed to private sector employees: older women's mean pension income from the federal government was 63.6% of men's in 1999; from state or local governments, 60.4%; and from companies/unions, 56.4%.[30] Because of these patterns, much of the discussion that follows will focus on trends among private sector employees.

Pension Coverage

As shown in **Table 1**, 38% of women age 16 or older employed full-time at private sector firms were covered under a pension plan in 1972. About a decade later, women's coverage rate was up to 42%. By the end of the next 10 years, it had increased to 48%. Men's pension plan participation rate, in contrast, decreased during the 1972-1993 period.

The proportion of both female and male full-timers age 16 or older at private firms who were covered under pension plans edged up through the late 1990s. The increase was somewhat greater than shown in **Table 1** because differences in the pension questions in the Contingent Work Supplement and Employee Benefit Supplement to the Current Population Survey (CPS) led to understatement of pension coverage in 1995-1999 compared to 1972-1993. (See footnote b in **Table 1** for further elaboration.) The pension coverage rate was higher and showed an even greater upward trend during the 1990s when the sample is limited to year-round (i.e., 50 or more weeks) full-time employees between 25 and 64 years old at private sector companies: the proportion of covered workers rose from 51.5% to 56.2% among women and from 56.6% to 59.2% among men between 1990 and 1999.[31]

In the waning years of the 20th century, then, the number of women with a strong commitment to the workforce who were participants in pension plans exceeded the number of non-participants. Although today these women are about as likely as men to have pension coverage, it should be recalled that relatively more women are part-time employees or are outside the paid labor force and thus probably lack access to private pensions.

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[29]DOL, *Coverage Status of Workers Under Employer Provided Pension Plans*.

[30]U.S. Bureau of the Census. Unpublished data. See **Table 2** for the numbers underlying these percentages and the note to the table for an explanation of the categorization of pension income by source.

[31] An additional reason for differences in the coverage rates for the 1990s is that the figures were derived from the March supplement to the Current Population Survey (CPS), which asked somewhat different questions than those included in the two aforementioned CPS supplements. Report RL30122, *Pension Coverage and Participation: Summary of Recent Trends*, by Patrick J. Purcell.

The gains women have made in rates of pension coverage are related, in part, to changes over the years in their labor force characteristics. The percentage of employees offered a pension plan varies directly with the size of the firm even after holding other characteristics constant (i.e., the larger the firm, the higher the pension offer rate all other things, such as educational attainment or industry of employment, being equal). Thus, as the share of women employed by large private sector businesses has risen in recent decades, the trend favored greater pension coverage for women. Similarly, studies found that the likelihood of an employee being offered a pension increases with the wage level. As the real earnings of women have grown over time, this trend also promoted greater pension coverage for women. Further, the marked decrease in recent decades in the share of women with less than 1 year of job tenure operated in favor of more women being offered pensions because, as previously noted, ERISA allows firms to require employees to work at least 1 year to be eligible for pension coverage.[32]

Table 1. Pension Coverage Rates Among Full-Time Wage and Salary Workers in the Private Sector, by Gender, 1972-1999

(in percentages)

Year	Women	Men
1972[a]	38	54
1979[a]	40	55
1983[a]	42	52
1988[a]	44	51
1993[a]	48	51
1995[b]	48	49
1997[b]	48	51
1999[b]	49	52

Source: DOL, Social Security Administration, U.S. Small Business Administration and Pension Benefit Guaranty Corporation. *Pension and Health Benefits of American Workers: New Findings from the April 1993 Current Population Survey*. May 1994; DOL. *Coverage Status of Workers Under Employer Provided Pension Plans: Findings from the Contingent Work Supplement to the February, 1999 Current Population Survey*.

[a] The data are from the Employee Benefit Supplements (EBS) to the Current Population Survey (CPS). The pension questions in the supplement changed somewhat over time: the narrower wording of questions in 1972 and 1983 resulted in some understatement of coverage in the 2 years, and the addition of a question on coverage under a 401(k) program starting in 1983 raised coverage estimates for later years.

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[32] Even, William E., and David A. Macpherson. The Changing Distribution of Pension Coverage. *Industrial Relations*, v. 39, no.2, April 2000.

[b] The data are from the Contingent Work Supplement (CWS) to the CPS. It has a more limited set of questions about pensions than were included in the EBS. This had the effect of undercounting pension coverage, likely by 2-3 percentage points, in the 1995-1999 period compared to the 1972-1993 period. At this time, there are no plans to again include the EBS in the CPS.

Pension Income

There also has been modest improvement over the years in the amount of women's pension benefits. Mean income from company/union pension plans among women age 65 or older was $2,962 in 1988 and $5,839 in 1999. (See **Table 2**.) Like the trend in pension coverage, female private sector employees fared better than their male colleagues: the rate of increase in the size of benefits from company/union pension plans was much greater for older women (97.1%) than for older men (79.4%). Consequently, among women age 65 or older, mean pension income from this source rose to 56.4% of men's in 1999 from 51.3% in 1988.

Table 2. Mean Income from Private Pensions of Persons Age 65 or Older, by Gender, 1988 and 1999
(in nominal dollars)

Source of pension income	Women	Men
1988		
Company or union	$2,962	$5,774
Federal government	10,256	16,377
Military retirement	n/a	14,750
State or local government	6,026	8,032
Railroad retirement	5,206	9,522
Annuities	2,808	4,213
IRA, KEOGH or 401(k)	n/a	2,864
Other or don't know	n/a	n/a
1999		
Company or union	$5,839	$10,360
Federal government	15,405	24,214
Military retirement	n/a	16,093
State or local government	10,924	18,084
Railroad retirement	9,863	15,976
Annuities	4,259	n/a
IRA, KEOGH or 401(k)	7,065	19,850
Other or don't know	5,962	12,543

Source: U.S. Bureau of the Census. Unpublished data from the March supplement to the Current Population Survey.

n/a = not available because small cell size makes estimates unreliable.

Note: Respondents to the survey are not prompted as to the sources of pension income so if someone covered by a company/union plan who is getting a distribution in the form of an annuity reports "annuity" to the interviewer that is the source recorded. If, instead, the respondent reports "company/union" that is the source recorded.

The persistent disparity in pension wealth by gender is confirmed by empirical research based upon data from other nationally representative surveys of individuals (i.e., the National Longitudinal Survey of Mature Women and the Health and Retirement Study) in combination with detailed descriptions of employer-sponsored pension plans.[33] In one analysis, it was estimated that among persons nearing retirement age in the early 1990s the ratio of the mean present value of DB benefits was about 2 to 1 and of DC benefits, about 2¼ to 1, in favor of men.[34]

Another study found that, among full-time employees approaching retirement age in the early 1990s, the median present value of pension wealth for those with coverage on their current jobs was 76% higher for men than women.[35] The median benefit premium of men compared to women was narrowest for those with just DB coverage (30%) and widest for those with just DC coverage (170%). The gender premium could well be larger than calculated in this study for a variety of reasons:

! First, it was assumed that women and men earned equal rates of return on the account balances in their DC plans. There is evidence of women typically being more conservative (i.e., lower risk) investors, however.[36] As the lower expected returns from relatively low-risk assets will produce smaller accumulations in benefit accounts, the differing investment styles by gender could further exacerbate the pension income gap among future retirees in light of the growing dominance of DC plans.

! Second, the analysis was limited to pensions received from the prospective retiree's current job. There is evidence that many individuals on the verge of retirement have pensions earned during prior employment.[37] The authors

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[33]The approach taken by these studies matches survey respondents with pension plan descriptions collected from their current/former employers whose names and addresses the respondents provided. The value of benefits was then calculated using pension software that took into account the surveyed individuals' earnings and employment histories and their employers' plan descriptions. This methodology is considered superior to basing benefit calculations on information provided by individuals about the myriad features of their own or their spouse's pension plan or to directly utilizing the respondent's estimate of future pension payments.

[34]Gustman, Alan L., and Thomas L. Steinmeier. *Employer Provided Pension Data in the NLS Mature Women's Survey and in the Health and Retirement Study*. National Bureau of Economic Research Working Paper 7174, June 1999. **Note:** Discounted present value is a measure of the current worth of a stream of future expected benefits.

[35]Johnson, Richard W., with Usha Sambamoorthi, and Stephen Crystal. Gender Differences in Pension Wealth: Estimates Using Provider Data. *The Gerontologist*, v. 39, no. 3. (Hereafter cited as Johnson, Sambamoorthi and Crystal, *Gender Differences in Pension Wealth*.)

[36]Bajtelsmit, Vickie L., and Nancy A. Jianakoplos. Women and Pensions: A Decade of Progress? *EBRI Issue Brief*, no. 227, November 2000; Sunden, Annika A., and Brian J. Surette. Gender Differences in the Allocation of Assets in Retirement. *American Economic Review*, v. 88, no. 2, May 1998; Hinz, Richard P., with David D. McCarthy. and John A. Turner. *Are Women Conservative Investors? Gender Differences in Participant-Directed Pension Investments* in Gordon, Michael S., with Olivia S. Mitchell, and Marc M. Twinney. *Positioning Pensions for the Twenty-First Century*. Philadelphia, The Pension Research Council and University of Pennsylvania Press, 1997.

[37]McGarry, Kathleen, and Andrew Davenport. *Pensions and the Distribution of Wealth. National Bureau of Economic Research Working Paper 6171*, September 1997. (Hereafter

(continued...)

speculated that differences in pension wealth would have been larger if they had included all jobs rather than just the current job affording pension coverage.

- Third, the study excluded part-time employees and persons not in the labor force who, as previously discussed, are more likely to be women lacking in pension benefits.

Prognosis

Despite the above-described caveats, these and other researchers who have analyzed the characteristics with the largest effects on the pension wealth gap by gender are optimistic about the retirement income prospects of women in future years. The characteristics estimated to contribute most strongly to the disparity in pension income between women and men are the level of pre-retirement earnings, years of work experience, job tenure, industry and occupation of employment.[38] Gender differences in these attributes have been narrowing, to varying degrees, during the past 3 decades:

> Women's labor force participation, years of work experience, and earnings have all been increasing, both in absolute terms and relative to men, since members of the baby boom cohort began reaching adulthood in 1970. Although young women are still less likely to work than men and continue to earn less than men when they do work, the likely result of these trends will be greater pension wealth for women, leading to more equitable labor outcomes for working women and improved economic security for elderly women in [this] century.[39]

However, other members of the public policy community who have reviewed the same trends caution that so long as women

> continue to provide most of the care-giving to young children and frail relatives in our society ... continue to earn less money than men, to work fewer hours, and to experience more interruptions from paid work, the pension picture ... probably will not change very much. As a result, retirement security will probably remain elusive for many women retiring in the twenty-first century.[40]

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[37](...continued)
cited as McGarry and Davenport, *Pensions and the Distribution of Wealth*.)

[38]Johnson, Sambamoorthi, and Crystal, *Gender Differences in Pension Wealth*; Levine, Phillip B., with Olivia S. Mitchell, and John W. Phillips. *Worklife Determinants of Retirement Income Differentials Between Men and Women*. National Bureau of Economic Research Working Paper 7243, July 1999; DOL, *Report on the American Workforce*. Washington, D.C., 1997.

[39]Johnson, Sambamoorthi, and Crystal, *Gender Differences in Pension Wealth*, p. 332-333.

[40]OWL. *Women, Work, and Pensions: Improving the Odds for a Secure Retirement*. 1998. p. 17. (Hereafter cited as OWL, *Women, Work, and Pensions*.)

Remedies Considered by the Congress

Employer-provided pensions have become an increasingly important part of the nation's retirement system, both in terms of the share of persons covered by them and the share of elderly households' total wealth derived from them (more than one-fifth). If the growth potential of public pensions is limited by a funding shortfall in Social Security, private pensions likely will become an even more critical source of support for older members of society. For these reasons — as well as the possibility that pension income inequality by gender contributes to the relatively high rate of poverty among older non-married (e.g., widowed or divorced) women — public policymakers are interested in ways to enhance women's pension coverage and income.[41]

Over the years the Congress has considered and enacted legislation to address some of the concerns of women in retirement.[42] A change to ERISA in 1986 to shorten the vesting period from 10 to 5 years was widely considered an important step toward removing a significant barrier to women's participation in pension plans. Protections included in the Retirement Equity Act of 1984 (REA) are provisions that require employers to provide a joint and survivor (J&S) benefit option and spousal notification of the option.[43] REA also provided that private pension plans could pay benefits directly to divorced spouses who obtain a court order called a Qualified Domestic Relations Order (QDRO).

Despite these changes to the law, women's pension participation continues to lag behind that of men. Women's pension benefits can be limited by many factors including the formulas used to calculate benefits, as well as by pension integration, the practice of reducing benefits under a DB plan by subtracting part of the participant's expected Social Security benefit. Other laws governing vesting, portability of benefits, survivor annuities, and pension division upon divorce can adversely affect the retirement income of women.

During recent Congresses many bills were introduced that would have changed pension law in ways intended to benefit women.[44] These bills included general pension reforms as well as more targeted legislation focused on the concerns of women. In the 106th Congress, H.R. 1102 included various provisions to promote the

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[41]McGarry and Davenport, *Pensions and the Distribution of Wealth*; Mitchell, Hammond and Rappaport, *Forecasting Retirement Needs and Retirement Wealth*; Social Security Administration. *Income of the Population 55 and Over, 1998*. SSA Publication No. 13-11871. March 2000.

[42]It is important to note that most of the changes already enacted and pending legislation to address women's concerns are not gender specific and have an impact on both men and women, although women may be disproportionately affected.

[43]In return for the right to receive a pension benefit after the participant's demise, the J&S option provides for a pension benefit that is actuarially reduced to cover the cost of the joint life expectancies of both the beneficiary and spouse.

[44]For information on general pension legislation see: CRS Issue Brief IB10028, *Pension Plans Offered by Private Employers: Legislative Issues in the 106th Congress*, by James R. Storey.

coverage of working women under pension plans, and was passed by the House but never reached final enactment because of other issues unrelated to pensions. In the 107th Congress, H.R. 10, a bill very similar to H.R. 1102, was introduced on March 14, 2001. This section of the report deals primarily with legislation that specifically targets women's pension issues as examples of the types of reform proposals the Congress has considered. Many of these provisions are intended to help workers with short-term or intermittent attachment to the labor force, disproportionately including women, but they would be of benefit to others as well.

Legislation Related to Expanded Pension Coverage for Women

As the pension participation of women continues to lag somewhat behind that of men, pension coverage issues are often identified as holding the key to narrowing this gap. Increasing *pension coverage in small firms* could clearly provide greater coverage for workers, including women. Over the years the Congress has been very active in providing incentives for small businesses to offer pension benefits to workers.[45] In the 106th Congress, measures were proposed to stimulate small firms to sponsor pension plans.[46] Several bills would have provided firms with tax credits to partially offset the cost of starting plans, while others would have relaxed the "top-heavy" rules that require plans to have special rules when assets are concentrated in the accounts of owners and highly paid employees. Other bills would have encouraged small businesses to sponsor simplified DB plans. Early in the 107th Congress, broader pension reform bills such as H.R. 10 and H.R. 546 include provisions to encourage pension sponsorship by small firms.

Vesting is often identified as a barrier to pension coverage for women despite the amendments that already were made to ERISA on this point. Measures shortening the vesting period to less than the typical 5 years have been repeatedly introduced in recent Congresses. In the 106th Congress, several bills would have provided for faster vesting of certain employer matching contributions.[47] Generally, these bills would have lowered the vesting requirement to 3 years for cliff vesting in DC plan accounts. The maximum period allowed for graded vesting in DC plans would have been shortened from 7 years to 6 years by these bills. In addition, two bills included a provision requiring plans to give vesting and benefit accrual credit for unpaid leave taken under the Family Medical Leave Act.[48] In the 107th Congress, H.R. 10 and H.R. 546 would provide for faster vesting of certain employer matching contributions, requiring 3-year cliff vesting and 6-year graded vesting.

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[45]For more information on these measures see: CRS Report 98-171, *Retirement Plans with Individual Accounts: Federal Rules and Limits*, by James R. Storey and Paul Graney.

[46]In the 106th Congress, these bills included H.R. 188, H.R. 352, H.R. 833, H.R. 1102, H.R. 1213, H.R. 1546, H.R. 2190, H.R. 3081, H.R. 3246, S. 487, S. 649, S. 741, and S. 1863.

[47]In the 106th Congress, these bills included H.R. 739, H.R. 833, H.R. 1102, H.R. 1213, H.R. 1590, H.R. 3081, S. 741, S. 1357, and S. 2671.

[48]In the 106th Congress, these bills included H.R. 1213 and H.R. 1590.

As a related issue, several bills in the 106th Congress would have permitted individuals who are age 50 or older to make additional contributions of up to $5,000 over the current $10,500 limit to a 401(k) plan or similar plan.[49] Similarly, in the 107th Congress, H.R. 10 and H.R. 546 would provide for catch-up contributions for persons over age 50. This type of provision would be helpful to women who might not have vested or participated in a pension plan during previous employment because of an intermittent pattern of employment. Such a provision could also help workers who had not always been able to save for retirement earlier in their working lives because family-related expenses (e.g., child care or a child's education) absorbed much of their pay from low-wage employment. However, this provision would primarily benefit any worker age 50 or over who is financially able to make additional contributions to 401(k) or similar plan without necessarily increasing the retirement incomes of women.[50]

Pension portability allows workers who change employment or leave the labor force to transfer accumulated pension benefits to their new employer or to other retirement options (e.g., IRAs). This problem is not unique to women since, as previously discussed, most DB plans are not portable. However, as women are more likely to change jobs or have "breaks in service" during their careers, portability can be a particular problem for them.

Although no recent proposals would improve DB plan portability, reducing the barriers to tax-free rollovers of DC benefits has been proposed to preserve the accumulated pension assets of workers who change jobs. Legislation introduced in the 106th Congress included provisions which would have allowed tax-deferred rollovers from §457 plans to other employer plans or IRAs.[51] In addition, the rollover authority for §403(b) plans would have been broadened. In some bills, IRAs could have been rolled over to employer plans.[52] In the 107th Congress, H.R. 10 and H.R. 546 include similar provisions.

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[49]In the 106th Congress, these bills included H.R. 833, H.R. 1102, H.R. 1546, H.R. 3081, S. 649, and S. 2671.

[50]In addition, several bills were introduced in the 106th Congress that would have repealed the 25% of salary limit on total contributions to DC plans and the 33 1/3% limit on §457 salary deferrals. Again, this would have allowed for the improvement of retirement plan benefits for those individuals who could afford to make additional contributions. These bills included H.R. 833, H.R. 1102, H.R. 2082, H.R. 3081, S. 60, S. 741, and S. 2671.

[51]Section 457 plans provide salary deferrals, with no employer match, to employees of state and local governments and of other tax-exempt organizations. Section 457 plans are not required to follow the rules that apply to other private plans. Section 403(b) plans are tax-sheltered annuities that similarly permit employees of public educational organizations and of other tax-exempt organizations to defer taxes on a portion of their salaries. For more information see: CRS Report 95-399, *Section 457 Deferred Compensation: A Fact Sheet*; and CRS Report 96-93, *Section 403(b) Deferred Tax Annuity Plans: Fact Sheet*, both by James R. Storey.

[52]In the 106th Congress, these bills included H.R. 739, H.R. 833, H.R. 1102, H.R. 1213, H.R. 1590, H.R. 3081, S. 741, S. 1357, and S. 2671.

Legislation Related to Participation in the Paid Labor Force

Many of today's women over age 50 are more likely to receive pension income through their husbands than through their own employment.[53] Currently, a plan must offer a *benefit option with a survivor benefit* equal to 50% of the retirement annuity. According to the DOL, overall, about 54% of married private pension plan recipients selected a J&S annuity benefit option, which in the event of their death will continue to provide benefits to their spouses.[54] Pensioners have been increasingly choosing the J&S option, with 38% of recipients who began receiving benefits prior to 1975 choosing a J&S, compared to 62% of those retiring in 1993 or 1994. A J&S option was selected by 62% of men and 28% of women. Overall, 59% of married pensioners received benefits with a J&S option compared to 7% of divorced pensioners.

Although ERISA requires private pension plans to provide a J&S annuity benefit option, and REA required that the spouse agree to the waiver of that option, divorced or widowed women may continue to be at a disadvantage in retirement. There is some evidence to indicate that the J&S requirement in law may not be as beneficial as had been hoped to the retirement income of women. In an analysis of data from the Retired-Worker sample of the New Beneficiary Survey of Social Security beneficiaries,[55] respondents indicated that if each spouse had their own pensions (even if not as generous) they were more likely to elect a single life benefit over a J&S option than if only one spouse had pension coverage. The study also found that wives in a second marriage were less likely than those still in their first marriage to be protected by J&S benefits. The study concluded that gains by women in retirement income and pension coverage may be *offset* by reduction in the husbands' choosing the survivor benefit option. However, it is important to consider that the decision not to elect the J&S benefit option could be economically rational depending on a number of factors such as the ages of the individuals, their health status, other sources of income, and whether or not they have dependent children.

Bills introduced in the 106th Congress would have broadened the rights of spouses, ex-spouses and surviving spouses.[56] These bills would have added an option of a survivor benefit equal to at least two-thirds of the retirement benefit, with one bill (H.R. 1213) requiring plans to offer a three-fourths survivor annuity option. Proposed legislation also would have required that a model spousal consent form for waiving the J&S benefit be developed and a model QDRO law be developed for dividing annuities between divorced spouses.

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[53]OWL, *Women, Work, and Pensions*.

[54]DOL, *Retirement Benefits of American Workers*.

[55]Holden, Karen. *Are Wives Better Protected Against Sharp Falls in Income When Husbands Die: The Joint Influence of Survivor Benefits, Wives Prior Work, and Second Marriages: Final Report*, University of Wisconsin La Follette Institute of Public Affairs. June 1995.

[56]In the 106th Congress, these bills included H.R. 833, H.R. 1102, H.R. 1213, H.R. 1590, H.R. 3081, S. 132, and S. 741.

For women who lose access to their former husbands' retirement income through divorce, the REA provides that private pension plans could pay benefits directly to divorced spouses who obtain a QDRO to that effect. The amount that a divorced spouse receives from the former spouse's pension is determined by a state court judge, so there is no national uniform minimum benefit. Some also point out that many divorced women do not know of this provision in law and do not have the financial resources to obtain a QDRO. Two bills would require a 50-50 split of pension benefits between divorced spouses married at least 5 years unless otherwise specified in a court ordered QDRO.[57]

Currently, 401(k), profit-sharing, and stock bonus plan assets, which are not generally paid as annuities but in the form of lump-sum payments, can be withdrawn without the permission of the spouse. While the assets reside in these plans, the spouse may be the designated beneficiary if the participant dies. Participants can name another beneficiary, but only with the written permission of the spouse. However, an IRA account holder may name anyone beneficiary without permission of the spouse. In such circumstances, when the participant in a 401(k) plan, for example, transfers assets out of that plan and into an IRA, the spouse loses any spousal protections that might have existed under the original plan. As DC plans now are the dominant type of pension benefit — particularly in those industries in which women are concentrated — women are more likely to be account-holders themselves. Thus, adding a notification requirement could be a double-edged sword for women (i.e., women as spouses would benefit from notification, while women as plan participants would have to inform and obtain consent from their spouses to take distributions). Bills introduced in the 106th Congress, would have required spousal consent for distributions from a 401(k) plan, as well as required plans to provide for the spouse's right to know specified distribution information related to survivor annuities.[58]

Legislation Related to Women's Job Characteristics

Under current law, employers are allowed to exclude people who work less than 1,000 hours a year from their pension plans. The exclusion could have a negative impact on the access of part-time workers, part-year (e.g., seasonal) workers, temporary workers and other contingent workers to pension benefits, many of whom are women. In the 106th Congress, legislation was proposed to prohibit any plan from excluding workers who are employed beyond a year of service, or who are designated as part-time, temporary, leased, agency or staffing firm employees.[59]

Pension integration is the practice in which pension benefits under a DB plan are reduced by subtracting a part of the participant's Social Security benefits according to a formula allowed by federal law. Employers are permitted to do this to compensate for the redistributive feature of Social Security which provides low earners with a higher proportion of benefits as a percentage of pre-retirement pay

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[57]In the 106th Congress, these bills were H.R. 1590 and S. 132.

[58]In the 106th Congress, these bills included H.R. 1590, H.R. 2946, S. 132.

[59]In the 106th Congress, these bills included H.R. 2299, H.R. 4962 and S. 2946.

compared to high earners. The Tax Reform Act of 1986 limits the amount an employer can reduce an employee's pension through integration to 50% of what the employee would have received. This practice is most common for job classifications where women are over-represented, such as low-wage clerical and sales jobs. In 1997, 60% of clerical and sales employees in medium and large firms — mostly women — had their DB pensions integrated with Social Security.[60] During the 106th Congress, bills were introduced which would have provided for the eventual repeal of certain pension integration rules.[61]

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[60]BLS, *Employee Benefits in Medium and Large Private Establishments*.

[61]In the 106th Congress, these bills included H.R. 1590 and S. 8.